Featured Stock in January's Exec Comp & ROIC Model Portfolio

No new stocks made January's Exec Comp Aligned with ROIC Model Portfolio, available to members as of January 13, 2023.

Recap From December's Picks

Our Exec Comp Aligned with ROIC Model Portfolio (+7.1%) outperformed the S&P 500 (+1.5%) from December 15, 2022 through January 11, 2023. The best-performing stock in the portfolio was up 20%. Overall, 12 out 15 Exec Comp Aligned with ROIC stocks outperformed the S&P 500 from December 15, 2022 through January 11, 2023.

This report leverages our cutting-edge Robo-Analyst technology to deliver proven-superior[1] fundamental research and support more cost-effective fulfillment of the fiduciary duty of care.

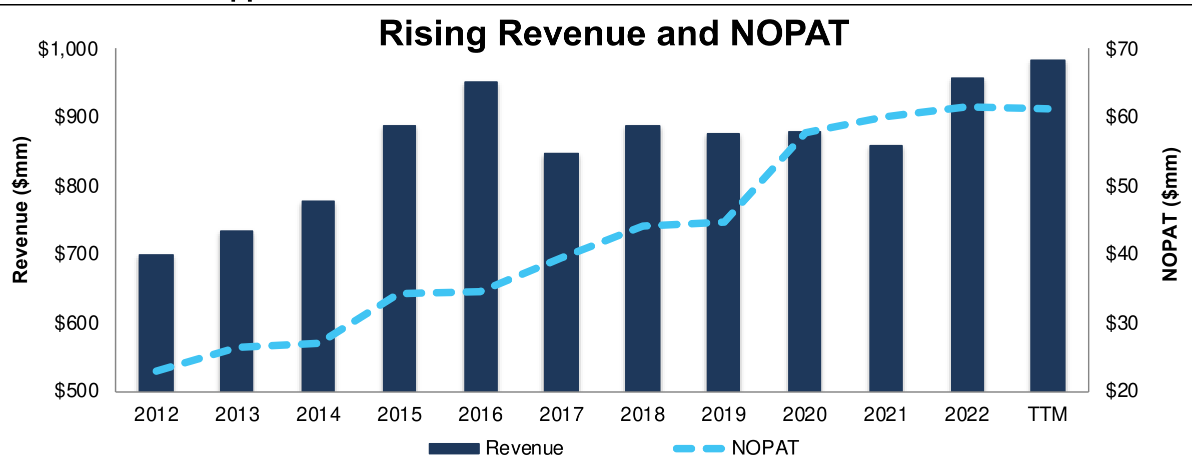
This Model Portfolio includes stocks that earn an Attractive or Very Attractive rating and align executive compensation with improving ROIC. This combination provides a unique list of long ideas as the primary driver of shareholder value creation is return on invested capital (ROIC).

New Feature Stock for January: John B. Sanfilippo & Son, Inc. (JBSS: $79/share)

John B. Sanfilippo & Son, Inc. (JBSS) is the featured stock in January's Exec Comp Aligned with ROIC Model Portfolio. We made JBSS a Long Idea in July 2020 as one of our "See Through the Dip" stocks. Since then, the stock is down 12% compared to a 22% gain for the S&P 500. The stock remains undervalued. Get all of our reports on John B. Sanfilippo & Son here.

John B. Sanfilippo & Son has grown revenue and NOPAT by 3% and 10% compounded annually, respectively, since fiscal 2012 (FYE 6/28). The company's NOPAT margin rose from 3% in fiscal 2012 to 6% over the trailing-twelve-months (TTM), while invested capital turns rose from 2.2 to 2.6 over the same time. Rising NOPAT margins and invested capital turns drove the company's return on invested capital (ROIC) from 7% in fiscal 2012 to 16% TTM.

Figure 1: John B. Sanfilippo & Son's Revenue & NOPAT: Fiscal 2012 – TTM



Sources: New Constructs, LLC and company filings

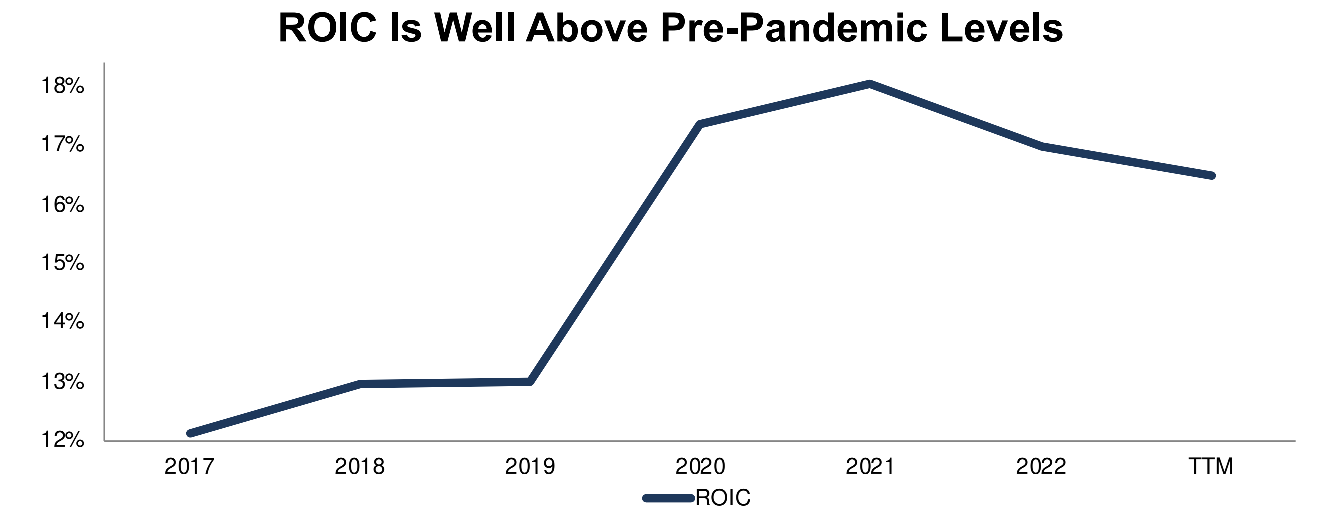
[1] Our research utilizes our Core Earnings, a more reliable measure of profits, as proven in Core Earnings: New Data & Evidence, written by professors at Harvard Business School (HBS) & MIT Sloan and published in The Journal of Financial Economics.

Executive Compensation Properly Aligns Incentives

John B. Sanfilippo & Son's executive compensation plan aligns the interests of executives and shareholders by tying the payout of cash awards to a targeted improvement in economic profit, which is similar to our calculation of economic earnings.

The company's inclusion of economic profit as a performance goal has helped create shareholder value through rising ROIC and economic earnings. John B. Sanfilippo & Son's ROIC improved from 12% in fiscal 2017 to 16% over the TTM. The company's economic earnings rose from $27 million to $44 million over the same period.

Figure 2: John B. Sanfilippo & Son's ROIC: Fiscal 2017 – TTM



Sources: New Constructs, LLC and company filings

JBSS Is Undervalued

At the current price of $79/share, JBSS has a price-to-economic book value (PEBV) ratio of 0.8. This ratio implies the market expects John B. Sanfilippo & Son's NOPAT to permanently fall by 20%. This expectation seems overly pessimistic for a company that has grown NOPAT by 10% compounded annually since fiscal 2012.

If John B. Sanfilippo & Son maintains its TTM NOPAT margin of 6% (compared to three-year average margin of 7%), and the company grows revenue by just 2% compounded annually (vs. 3% CAGR since fiscal 2012) over the next 10 years, the stock would be worth $105/share today – a 33% upside. In this scenario, John B. Sanfilippo & Son's NOPAT would grow just 2% compounded annually over the next decade. See the math behind this reverse DCF scenario. Should the company grow NOPAT more in line with historical growth rates, the stock has even more upside.

Critical Details Found in Financial Filings by Our Robo-Analyst Technology

Below are specifics on the adjustments we made based on Robo-Analyst findings in John B. Sanfilippo & Son's 10-Qs and 10-Ks:

Income Statement: we made $10 million in adjustments with a net effect of removing $1 million in non-operating expenses (<1% of revenue). Clients can see all adjustments made to John B. Sanfilippo & Son's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made $89 million in adjustments to calculate invested capital with a net increase of $26 million. One of the largest adjustments was $9 million (3% of reported net assets) in asset write-downs. Clients can see all adjustments made to John B. Sanfilippo & Son's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made $85 million in adjustments, all of which decrease shareholder value. Apart from total debt, the most notable adjustment to shareholder value was $30 million in underfunded pensions. This adjustment represents 3% of John B. Sanfilippo & Son's market cap. Clients can see all adjustments to John B. Sanfilippo & Son's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on [January 20, 2023](#).

Disclosure: David Trainer, Kyle Guske II, Matt Shuler, and Italo Mendonça receive no compensation to write about any specific stock, style, or theme.

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It's Official: We Offer the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our "novel database" enables investors to overcome these flaws and apply reliable fundamental data in their research.
3. Our proprietary measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Indiana's Kelley School of Business. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are here.

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